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SUBJECT: CHINESE SOLICIT PARTNERSHIP WITH U.S. FOLLOWING SHARM EL SHEIKH CONFERENCE

¶1. (SBU) SUMMARY: Following the Forum on China-Africa Cooperation, and the attendant promises of new Chinese investment in Liberia, the Chinese Embassy approached the USG to explore future possibilities for greater U.S.-Chinese cooperation in foreign assistance. The Chinese Embassy is particularly interested in exploring trilateral means, whether public or private, to renovate the Mt. Coffee Hydroelectric dam. Chinese promises at Sharm El Sheikh may be warmly received by the GOL, but the credit crunch appears to be hampering a key Chinese iron ore concession in Liberia, creating unanticipated delays in revenue generation and job creation. END SUMMARY.

¶2. (SBU) Econoffs met November 12 with the economic and commercial section of the Chinese Embassy in Monrovia to exchange views on Liberia's investment climate. The four officials included: Counsellor Liu Yunbiao; First Secretary, Yang Xuhong; Attache Wang Dong; and Economic Officer Xue Song. The Chinese, who initiated the meeting, said they hoped to explore possibilities for greater U.S.-Chinese economic and assistance coordination in Liberia.

¶3. (SBU) Discussion revolved around the fourth annual Forum on China-Africa Cooperation, held in Sharm El Sheikh, Egypt, November 8-9. At the conference, Chinese Prime Minister Wen Jiabao promised President Sirleaf USD 7 million for mutually agreeable assistance projects. However, Liu acknowledged that the Chinese Embassy was struggling to identify strong projects that would improve the investment climate or create new jobs. He said he welcomed the openness of the Ambassador and USAID Director to closer cooperation between the U.S. and Chinese Embassies in Liberia. [Note: USAID and the Chinese Embassy jointly constructed a "Center of Excellence" in engineering at the University of Liberia's Fendell Campus, the first U.S.-Chinese joint assistance project in Africa. End Note] Liu praised this initial bilateral collaboration, and expressed his belief that there are many more opportunities to accomplish shared objectives, notably infrastructure and investment climate reforms that make Liberia more hospitable for private sector development.

¶4. (SBU) Separately, USAID Mission Director in Liberia received a similar message during a meeting with Gao Yuanyuan, deputy director general of China's Department of Aid to Foreign Countries, on the margins of an Organization for Economic Cooperation and Development conference in Beijing. In the October 29 conversation, Gao told USAID that China would be interested in exploring further tripartite cooperation in Liberia.

¶5. (SBU) Liu expressed particular interest in potential cooperation in the energy sector, where capital-intensive projects may require investment from multiple public or private sector partners. Liu said the Chinese Embassy believes affordable energy is the key to economic growth in Liberia, and worries that Liberia's private sector growth will remain limited as long as entrepreneurs must rely upon expensive diesel-generated power. Liu said the Chinese Embassy would be interested in exploring the possibility of a joint-venture to renovate the Mt. Coffee hydroelectric dam. Sinohydro Corporation, a Chinese firm, has taken an interest in the U.S. Trade

and Development Agency-funded feasibility study that explores options for refurbishing Mt. Coffee. Liu explained that Stanley Consultants, the U.S. engineering firm that produced the study, has an office in Beijing, and has been in contact with Sinohydro. The study estimated the cost to rehabilitate Mt. Coffee would be USD 400 to 500 million, which will likely require a consortium of international investors and donors. Econoffs agreed to share this message with the Ambassador and USAID.

¶6. (SBU) While the Chinese economic team noted Chinese companies often find the lack of capacity within the GOL a hindrance to investment, the Ministry of Finance suggested that the frustration exists on both sides. In Sharm El Sheikh, President Sirleaf urged PM Wen to help China Union move forward with the Bong Mine concession, an iron ore extraction agreement valued at USD 2.6 billion over 25 years that constitutes the largest Chinese investment in Liberia. Deputy Minister of Finance for Revenue Elfrieda Tamba told Econoff China Union owes the GOL USD 47 million it is required to pay before it begins operations. Tamba said China Union is struggling to raise the necessary capital, so the Chinese Development Fund (a body similar to the Overseas Private Investment Corporation) is trying to negotiate with the MOF to permit the CDF to assume an 85% ownership stake in the concession. The CDF stake would ensure China Union has access to financing to cover arrears payments and future operational expenses. Tamba noted this is China Union's third attempt to amend the concession agreement and likely will delay the onset of operations by at least another six months.

¶7. (SBU) COMMENT: Among its bilateral relationships in Africa, China's strategic interest in Liberia is perhaps unique. Because China is heavily involved in the peace process through UNMIL, it

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uses its development assistance not only to secure investment in the extractive industries, but also to maintain friendly ties with the GOL. While China's donor assistance to Liberia remains modest, foreign direct investment from Chinese companies contributes an increasing share of GOL revenues (if paid, the China Union debt of USD 47 million would comprise fully 15 percent of Liberia's total annual revenues).

¶8. (SBU) Given the scope of Liberia's needs, further cooperation with the Chinese Embassy might be welcome, provided we can identify projects that meet USG foreign assistance objectives. However, it remains to be seen whether China's interest in cooperation with the Embassy may flag as global credit and commodity markets rebound. We agree that the renovation of Mt. Coffee is key to Liberia's development, but would need to ensure that the benefit goes beyond powering Chinese projects. As indicated by problems with the China Union deal, the Chinese Embassy's outreach to us may in part be motivated by the global economic downturn and the diminished capacity of Chinese firms to fully finance independent investment opportunities.

THOMAS-GREENFIELD